

FISCAL NOTE

Bill #: SB0138

Title: Revise tax laws on alternative energy and energy conservation

Primary Sponsor: Cobb, J

Status: As Introduced

Sponsor signature	Date	Chuck Swysgood, Budget Director	Date
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Fiscal Summary

	<u>FY 2004 Difference</u>	<u>FY 2005 Difference</u>
Revenue:		
General Fund	\$169,661	\$313,781
State Special Revenue	\$9,000	\$18,000
Net Impact on General Fund Balance:	\$178,661	\$331,781

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|---|---|
| <input type="checkbox"/> Significant Local Gov. Impact | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input checked="" type="checkbox"/> Significant Long-Term Impacts |
| <input type="checkbox"/> Dedicated Revenue Form Attached | <input type="checkbox"/> Needs to be included in HB 2 |

Fiscal Analysis

ASSUMPTIONS:

1. Under current law, alternative energy generation facilities with a nameplate capacity of at least 1 megawatt built after July 1, 2001 are exempt from property tax. This bill eliminates that local abatement. New alternative energy generation facilities still would be eligible for the property tax reduction for new or expanded industries.
2. New alternative renewable energy generation facilities with nameplate capacity of at least 1 MW with a value of \$50 million will be constructed each year in 2003 and 2004. (Department of Environmental Quality)
3. The machinery and equipment of the new alternative renewable energy generation facilities with nameplate capacity of at least 1 MW, will be classified as class 8 property, and subject to the class 8 property tax rate of 3%.
4. The generation facility's property will not be liened to real property and will pay property taxes in the spring of each fiscal year.
5. The first facility built in CY03 and will start paying taxes in FY04. The second facility built in CY04 and will start paying taxes in FY05.
6. Under this proposal, facilities that were exempted from ad-valorem property taxes (MCA 15-6-225) would now be subject to taxation. Using the assumption stated above, general fund property tax revenues generated from each facility in its first year of production will be \$142,500 per year ($\$50,000,000 \times 3\% = \$1,500,000 \times 95 \text{ mills} = \$142,500$), university 6 mill fund property tax revenues generated from each

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(continued)

facility in its first year of property taxation will be \$9,000 per year ($\$50,000,000 \times 3\% = \$1,500,000 \times 6 \text{ mills} = \$9,000$)

7. Under current law MCA 15-32-103 provides a deduction from income taxable under the corporation tax for investments in building energy efficiency. It limits the deduction to \$1,800 for investments in a residential building and \$3,600 for investments in a nonresidential building. MCA 15-32-109 provides a credit against individual income tax for investments in building energy efficiency. It limits the credit to \$500. MCA 15-32-104 limits an individual taxpayer's saving from the deduction or the credit to \$100,000 per year. This bill eliminates the redundant limit in MCA 15-32-104, which will have no impact on revenue.
8. Under current law, the individual income tax credit for investments in building energy efficiency may be carried forward up to seven years. This bill would eliminate the carry-forward provision. In tax years 2000 and 2001, 12% of credits were carried forward from previous years.
9. In tax year 2001, credits were \$201,445. On average, credits grew 6% per year from 1989 to 2001. Under current law, credits will continue to grow at 6% per year, to \$226,344 for tax year 2003 (fiscal 2004) and \$239,924 for tax year 2004 (fiscal 2005). The amount carried forward from previous years will be \$27,161 in fiscal 2004 ($12\% \times \$226,344$) and \$28,781 in fiscal 2005 ($12\% \times \$239,924$). Eliminating the carry-forward would increase income tax revenue by \$27,161 in fiscal 2004 and by \$28,781 in fiscal 2005.

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

The facility's property would receive the local abatement for new and expanding business. The local abatement provides for a reduced tax rate of 1.5% to be applied to the assessed value of the property when levying local government mill levies. With an assessed value of \$50,000,000 and the new and expanding business abatement applied, each facility would have a first year taxable value of \$750,000. In TY02 the average rural mill levy was 330.46 mills. Applying the net local government levy of 330.46 to the facility's abated taxable value would provide an additional \$247,845 in property tax revenues for local governments and schools for each facility. Local government and schools in the spring of FY04 would receive property tax revenue from the first facility and from both facilities in the spring FY05.

LONG-RANGE IMPACTS:

Property tax revenue for the state general fund and the university 6 mill fund, generated from these facilities will be \$303,000 in FY06. In fiscal years after FY06 the property tax revenue would be smaller due to depreciation of the machinery and equipment of the facilities.